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SUBJECT: LEBANON: ECONOMIC DEVELOPMENT IN TRIPOLI FACES

POLITICAL HURDLES

SUMMARY

¶1. (SBU) Northern Lebanon, which is in dire need of economic development, has existing infrastructure that, if improved and utilized, could in time promote investment and create jobs. However, political roadblocks are delaying progress on current projects, particularly the expansion of Tripoli port, the recently-approved "economic zone," and the Rashid Karami trade fair facility. Increased political will and outsider investment interest, the glimmerings of which may exist, could inject much needed capital into the region. However, the run-up to 2009 parliamentary elections probably will shift political attention away from long-term development goals and could increase sectarian and political tensions in northern Lebanon, delaying projects further. End Summary.

¶2. (SBU) Tripoli, from Lebanese independence in 1943 until the outbreak of civil war in 1975, was the economic hub of northern Lebanon. The city housed the country's steel and wood industries and the active port transferred goods to Syria and Iraq. The nearby Beddawi refinery processed all of the crude oil drilled by the Iraq Petroleum Company. However, as tensions between Syria, Lebanon's vital transit link, and Iraq grew and the civil war in Lebanon began, the quantity of supplies shipped through the port of Tripoli dropped and factories began to close. Inhabitants of the predominately Christian mountain villages surrounding Tripoli stopped spending winters in the city and patronizing its service sector as sectarian tensions increased. Tripoli contacts blame the central government for "turning its back" on the city after the civil war and continuing the dramatic economic digression. The International Poverty Centre 2008 country report found that while northern Lebanon accounts for 20.7 percent of the Lebanon's entire population, it is home to 38 percent of the poor and 46 percent of the extremely poor population in Lebanon.

INVESTOR INTEREST IN ECONOMIC ZONE

¶3. (SBU) As part of Prime Minister Siniora's six-point development plan to increase security and improve living conditions in northern Lebanon, Parliament approved in September 2008 the formation of a one million square meter "economic zone" in Tripoli. According to March 14 allied-MP Mosbah Allouch, Siniora hopes that government incentives, such as tax cuts, will encourage the private sector to invest in the area by building facilities and teaching local laborers necessary skills. Former Chairman of the Board of

Tripoli Port Antoine Habib focused on the zone's potential to bring artisans out of the poor conditions of Tripoli to make and sell their wares. Tripoli business owner, and supporter of former Prime Minister Najib Mikati, Walid Kamaraddine expected the area would be used to build distribution warehouses for all sectors, with goods ranging from food stuffs to machinery. He knew of Chinese and Latin American companies considering participation in the zone and also told econoffs he planned to invest. Allouch indicated that several EU companies had expressed interest.

DELAYED IMPACT

14. (SBU) However, political prerequisites for the establishment of Tripoli's economic zone will delay any economic impact. The law passed by Parliament in September called for the creation of a General Authority for the Special Economic Zone, requiring an implementation decree in the Cabinet. The implementation decree must set up the Authority's bylaws, financing standards, duties and indemnities, board of directors, and other functional requirements -- a time-intensive process, particularly with pressing issues, such as the 2009 budget, still on the Cabinet agenda. Additionally, the sectarian makeup of the zone's board of directors must balance that of the board of the port and the trade fair, and will need political approval by key Tripoli leaders, including former Prime Ministers Omar Karami and Najib Mikati and Minister of Economy and Trade Mohammad Safadi, as well as by Future Movement leader Saad Hariri.

PORT EXPANSION KEY DEVELOPMENT OPPORTUNITY

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15. (SBU) All interlocutors cited the port of Tripoli as an invaluable, and underutilized, resource for the north. Currently, poor administration, discontinuity of port management, and lack of regulation offer little incentive for companies to favor Tripoli port over the port of Beirut. Additionally, sectarian requirements that the chairman of the board of the port be a Muslim and the port general manager be a Christian have enabled political and sectarian disagreements to hinder port operations. However, Tripoli port's position as a point of access to Iraq, historical role as transit center to Syria and Iraq, and existing infrastructure suggest that the port, with significant structural and administrative improvements and immense political will, could bolster economic activity in northern Lebanon.

16. (SBU) An existing port development framework exists, although little has been accomplished recently. Former Chairman of Tripoli Port Habib, who developed the plans for the port rehabilitation project, said the initial step of redoing the decks of the port was completed. However, the second phase that would deepen the port from seven to 14 meters, contracted to a Chinese company, has been stalled for two years. According to contacts, financial and technical disagreements between the Lebanese government and the Chinese contractor, including the price of the contract and the best means to execute the project, caused the delay. Habib's plan also included an economic free zone at the port to encourage tourism and business.

17. (SBU) Contacts also often cite the railroad that ran from Tripoli to Homs in Syria as an important part of any port revitalization. The tracks, sold for steel during Lebanon's civil war, must be replaced, but the path for the railroad already exists. According to Allouch, a Syrian survey estimated that rebuilding the railroad from Tripoli to the border with Syria would cost between \$30 and \$35 million.

REINVIGORATED POLITICAL WILL ON PORT?

18. (SBU) Prime Minister Siniora's September visit to Tripoli and issuance of the Tripoli "six point plan" may have renewed attention on the problem of development in northern Lebanon,

but progress on port rehabilitation is unlikely to be smooth.

In a potential sign of progress, the Lebanese Cabinet on October 21 approved the payment of \$4 million to a Chinese company for steel purchased before disagreements with the government arose. However, when Minister of Transportation and Public Works Ghazi Aridi October 27 formally asked the port board to pay the contractor, the head of board of directors refused and offered his official letter of resignation October 31. According to Habib, Minister Aridi wants to appoint an entirely new board for the port -- potentially a positive if new board members are invested in improving port operations, but undoubtedly in Lebanon, a slow process.

TRADE FAIR HAS OFFERED LITTLE

¶9. (SBU) The Rashid Karami trade fair has offered little economic development for the region. Designed by Brazilian architect Oscar Nemeyer, best known for his work designing Brasilia, the complex houses an indoor and outdoor exhibition area, two stage areas, and a hotel. However, the fair rarely holds events of any kind, let alone those that would draw broader Lebanese, regional, or international crowds. A symposium of international sculpture was held in 2001, and in 2002 and 2003 Tripoli festival used the space for a concert and other events. Since then, the fair has seen little use. The Lebanese Cabinet has not appointed a new board of directors for the exhibition center to replace the last board that resigned two years ago.

COMMENT

¶10. (SBU) Tripoli's existing infrastructure offers a wealth of development opportunity. However, as attention in Lebanon turns toward the parliamentary elections scheduled for spring 2009, political will to undertake long-term economic revitalization projects, whose impact will not be seen in

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time to curry votes, will likely diminish. Additionally, powerhouse players in Tripoli, including Hariri and Tripoli natives Safadi, Mikati, and Karami, may have little desire to drastically rehabilitate an area whose poverty has enabled them to maintain financial, and thereby political, influence.

Nevertheless, will to improve existing infrastructure in northern Lebanon does exist to a small degree in some political circles, and small steps toward development would play an important role in decreasing poverty, and thereby reducing violence, in this tremendously needy and vital area of Lebanon. End Comment.

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